



MARK H. LUDWIG
FINANCE DIRECTOR

JACOB D. KAUFMAN
TAX ADMINISTRATOR/
ASSISTANT FINANCE DIRECTOR

WILLIAM J. ROTH, JR.
MAYOR

CITY OF FAIRLAWN

MEMORANDUM

To: William J. Roth, Jr., Mayor

From: Jacob D. Kaufman, Tax Administrator/Assistant Finance Director

Date: January 3, 2018

Subject: 2017 Annual Report

Cc: Mark Ludwig, Finance Director

The City's unencumbered cash balances serve as useful measures of net resources available for spending at year-end and provide insight into the overall financial strength of the City. Included below is a comparison of the unencumbered cash balances of the City's funds at December 31, 2016 and 2017 followed by an analysis of the City's most significant funds:

Unencumbered Cash Balances	2016	2017	Increase/(Decrease)	
			Amount	Percentage
General Fund	\$ 7,510,033	\$ 6,885,133	\$ (624,900)	-8.3%
Income Tax Fund	6,387,836	6,283,421	(104,415)	-1.6%
Capital Improvement Fund	1,151,062	1,283,059	131,997	11.5%
Broadband Fund	8,685	113,538	104,853	1207.3%
All Other Funds	3,002,705	2,121,189	(881,516)	-29.4%
Total All Funds	\$ 18,060,321	\$ 16,686,340	\$ (1,373,981)	-7.6%

General Fund

The general fund is the primary operating fund of the City and supports nearly every City department. The unencumbered cash balance in the general fund, decreased 8.3% to \$6,885,133. It is essential that adequate fund balance levels be maintained to mitigate current and future risks and to ensure stable tax rates. The general fund's current unencumbered cash balance provides the City with a strong reserve balance equal to 42.9% of the fund's 2017 expenditure budget. For comparison, the Government Finance Officers Association recommends that governments, at a minimum, maintain an unrestricted general fund balance of no less than 16.7% of regular operating expenditures.

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The table below provides a comparison of general fund revenues by type for 2016 and 2017:

Revenues by Source	2016	2017	Increase/(Decrease)	
			Amount	Percentage
Income tax transfers-in	\$ 8,295,827	\$ 8,600,886	\$ 305,059	3.7%
JEDD revenues	3,344,739	3,272,521	(72,218)	-2.2%
Real and other taxes	937,930	904,497	(33,433)	-3.6%
Charges for services	486,549	458,329	(28,220)	-5.8%
Intergovernmental	297,847	441,457	143,610	48.2%
All other revenues	659,699	850,729	191,030	29.0%
Total	\$ 14,022,591	\$ 14,528,419	\$ 505,828	3.6%

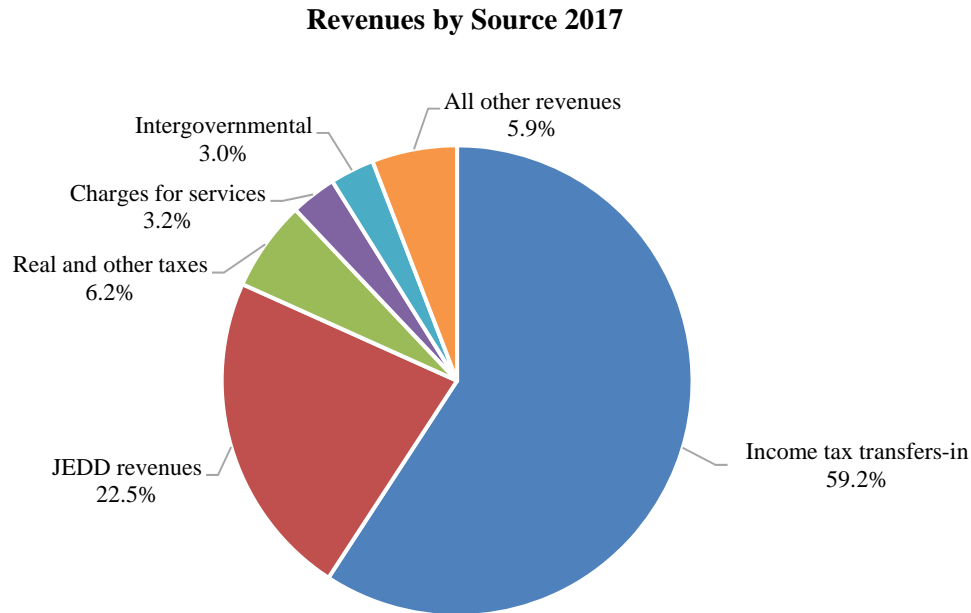
Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund. This income tax allocation, included in the table above as “Income tax transfers-in,” is calculated on a trailing one-year time period, meaning the amounts allocated to the fund in 2017 are based on the actual net collections in 2016. Net income tax revenues increased by 3.5% in 2016, giving way to the increased income tax allocation to the general fund in 2017. Please refer to the *Income Tax Fund* section for an analysis of income tax revenue collections in 2017.

The City receives additional income tax monies, reported as Joint Economic Development District (JEDD) revenues, as the result of its participation in the Bath-Akron-Fairlawn JEDD. Akron is responsible for the administration, collection, and enforcement of the income tax for the JEDD. The City is entitled to 48.15% of income tax proceeds from the JEDD, net of collection expenditures. The City’s share of revenue generated by the JEDD amounted to \$3,272,521 in 2017, a decrease of 2.2% from the previous year.

Intergovernmental revenue increased by \$143,610 or 48.2% in 2017. This increase was due, in part, to the receipt of a one-time rebate of \$96,800 from the Ohio Bureau of Workers’ Compensation (BWC). The rebate, which is equal to 66% of the City’s 2015 premium, was part of the BWC’s “Third Billion Back” program that refunded money back to public and private employers to alleviate a surplus in the state insurance fund.

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As shown below, the general fund continues to be heavily reliant upon income taxes and JEDD revenues, which accounted for 81.7% of the fund's revenues in 2017:



The following table provides a comparison of general fund expenditures by function for 2016 and 2017:

Expenditures by Function	2016	2017	Increase/(Decrease)	
	Amount	Amount	Amount	Percentage
Security of persons and property	\$ 6,207,326	\$ 6,536,209	\$ 328,883	5.3%
General government	2,496,930	2,613,953	117,023	4.7%
Transportation	2,296,826	2,326,549	29,723	1.3%
Community environment	452,117	541,698	89,581	19.8%
Transfers/Advances-out	970,705	2,215,127	1,244,422	128.2%
All other expenditures	761,804	777,353	15,549	2.0%
Total	\$ 13,185,708	\$ 15,010,889	\$ 1,825,181	13.8%

Increases to employee wages and health insurance costs impacted nearly every expenditure function in 2017. Salaries and wages were increased 3.25% for the communication specialists and 2.25% for all other employees. Furthermore, medical insurance rates increased by 2.6%, while dental insurance rates decreased 9.9%.

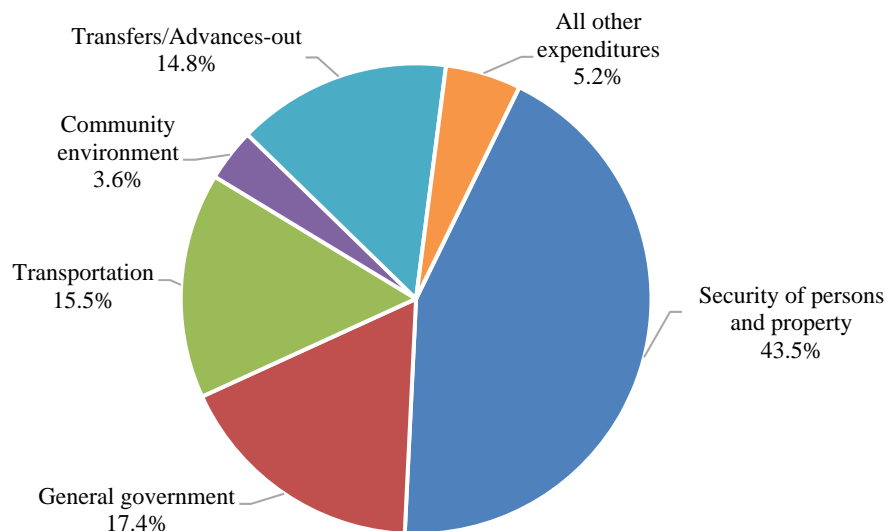
The activities of the Police, Dispatch, and Fire & EMS Departments are reported as security of persons and property expenditures. These expenditures increased by 5.3% or \$328,883, primarily due to increased personnel costs. In addition to the wage and health insurance increases previously noted, the retirement of a high-ranking employee in the Police Department and the addition of a thirteenth Fire/Medic for all of 2017, as opposed to just half of 2016, contributed to the overall increase.

General government expenditures include the activities of the Mayor’s administration and all other City departments not otherwise classified under another expenditure function. The 4.7% increase in general government expenditures resulted from the purchase the Riviera Townhomes. The City agreed to purchase the townhomes for \$1.3 Million, with approximately \$300,000 expended from the general fund. The remaining balance was taken out of the capital reserve fund.

Interfund transfers/advances-out of the general fund increased by \$1,244,422 or 128.2%, as a result of the fund subsidizing the operating costs of the FairlawnGig utility until it can support itself through user charges.

The general fund’s resources were primarily used for security of persons and property, general government, and transportation purposes, which accounted for 76.5% of the fund’s expenditures in 2017, as illustrated below:

Expenditures by Function 2017



Income Tax Fund

The income tax fund was established for the administration and collection of the City’s 2% income tax. Income taxes, the City’s largest revenue source, are collected to provide funds for the general operations of the City and the acquisition, construction, and improvement of the City’s capital assets. Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund, while the remaining 25% is required to be allocated to the capital improvement fund. The unencumbered cash balance in the income tax fund, decreased \$104,415 or 1.6% during the year.

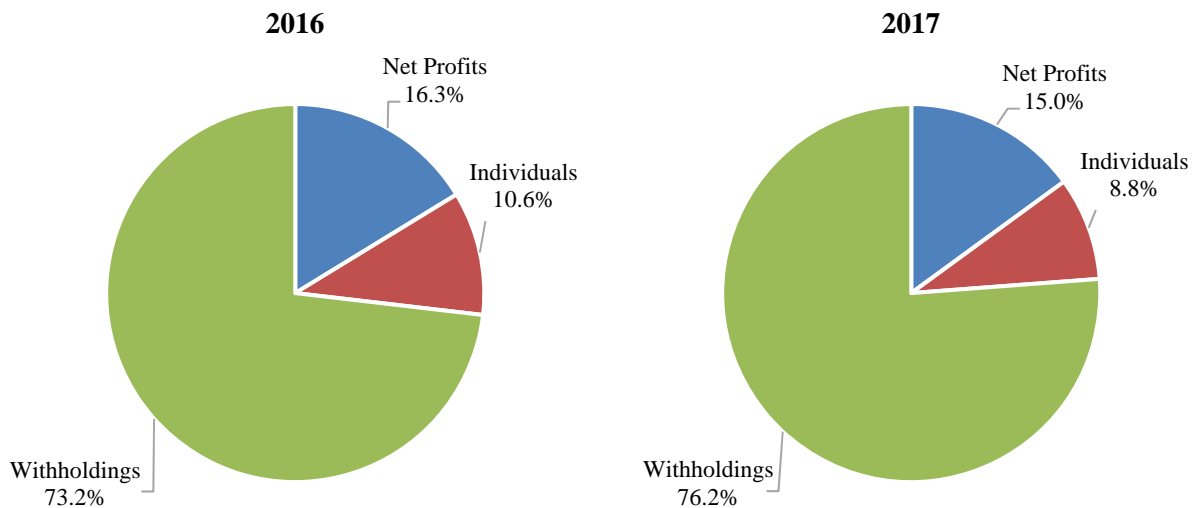
The following table provides a comparison of income tax revenue collected in 2016 and 2017:

	2016	2017	Increase/(Decrease)	
			Amount	Percentage
Income Tax Revenue	\$ 13,642,465	\$ 13,621,980	\$ (20,485)	-0.2%
Less: Shared Tax Paid to Akron	(1,439,318)	(1,562,859)	(123,541)	8.6%
Net Income Tax Revenue	\$ 12,203,147	\$ 12,059,121	\$ (144,026)	-1.2%

Income tax revenues decreased by 0.2% in 2017 to \$13,621,980. The City collected \$3,289,290 from businesses located in shared tax districts, \$1,562,859 of which was sent to Akron in accordance with various tax sharing agreements. Net income tax revenues (excluding shared tax revenues remitted to Akron) amounted to \$12,059,121, or 1.2% less than the prior year. Withholding taxes grew by 4.0% during 2017; however, that growth was offset by declines in net profit taxes (8.1%) and individual income taxes (16.6%). These decreases are attributable to the enforcement of the estimated tax payment requirements mandated by HB 5 and codified into the new income tax code that took effect January 1, 2016. Under the new requirements, taxpayers must estimate their tax liability and remit 90% of said liability to the City by December 15. Under the prior practice, many taxpayers paid their entire tax liability when they filed their annual return on either April 15, or the extended date of October 31, of the subsequent year. As a result, the City collected \$3,247,957 for tax year 2015 during calendar year 2016, as opposed to just \$2,685,984 during calendar year 2017 for tax year 2016.

As shown in the following chart, the composition of the City's income tax revenues remained consistent, with 73.2% and 76.2% of revenues coming from withholding taxes in 2016 and 2017, respectively.

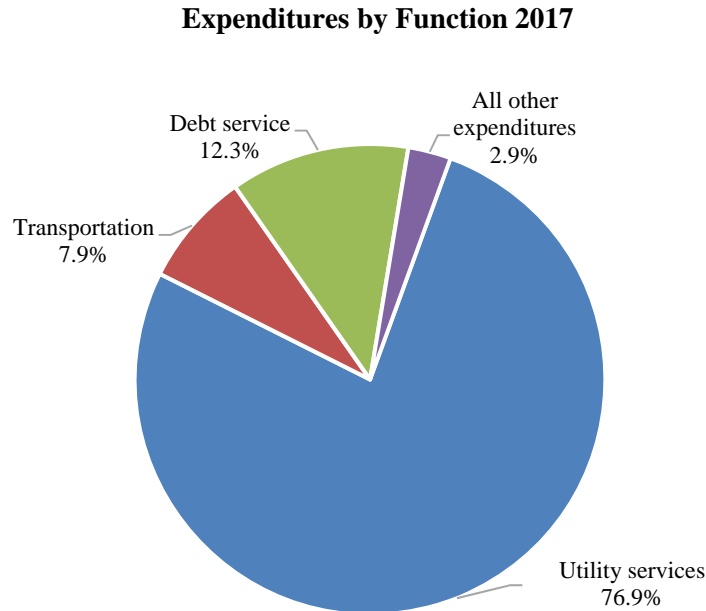
Income Tax Collections by Type



Capital Improvement Fund

The capital improvement fund accounts for the acquisition, construction, and improvement of the City's capital assets. The fund's unencumbered cash balance increased by \$131,997 or 11.5% due, in part, to several purchases coming in under budget during the year.

In addition to servicing the City’s outstanding capital debt issues, the capital improvement fund’s resources were primarily used for utility and transportation purposes, which accounted for 84.7% of the fund’s expenditures in 2017, as illustrated below:



The following major capital acquisitions and improvements occurred in 2017:

- Replacement of 3 Police Cruisers (\$157,200)
- Replacement of a Vehicle Maintenance Truck (\$54,901)
- Purchase of a Skid Steer with Planer and Trailer (\$99,389)
- Engineering for the Widening of Cleveland-Massillon Road (\$115,938)
- Street Repair Program Engineering/Inspection (\$98,933)
- Street Repair Program Construction (\$420,059)
- FairlawnGig Construction (\$7,953,055)

Broadband Fund

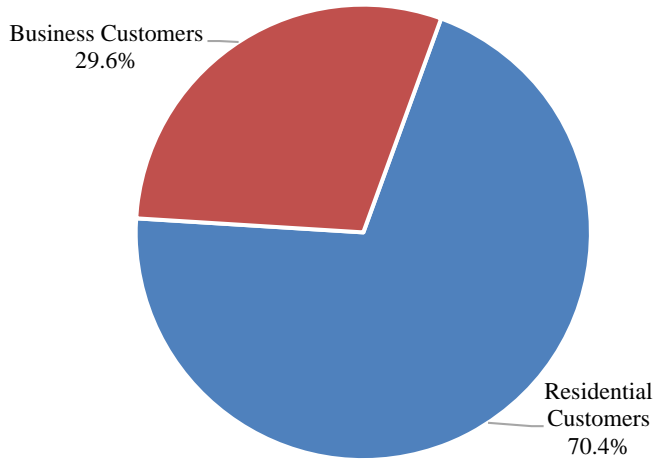
The broadband fund was created to account for the activities of the FairlawnGig utility. Activity in the broadband fund increased dramatically throughout 2017 as FairlawnGig’s operations expanded. As a result, the fund’s unencumbered cash balance increased by 1,207.3% or \$104,853 during the year.

The following table provides a comparison of FairlawnGig’s active customers and monthly recurring revenues in December 2016 and 2017:

	December 2016	December 2017	Increase/(Decrease)	
			Amount	Percentage
Active Customers	14	1,505	1,491	10650.0%
Monthly Recurring Revenues	\$ 2,610	\$ 103,186	\$ 100,576	3853.5%

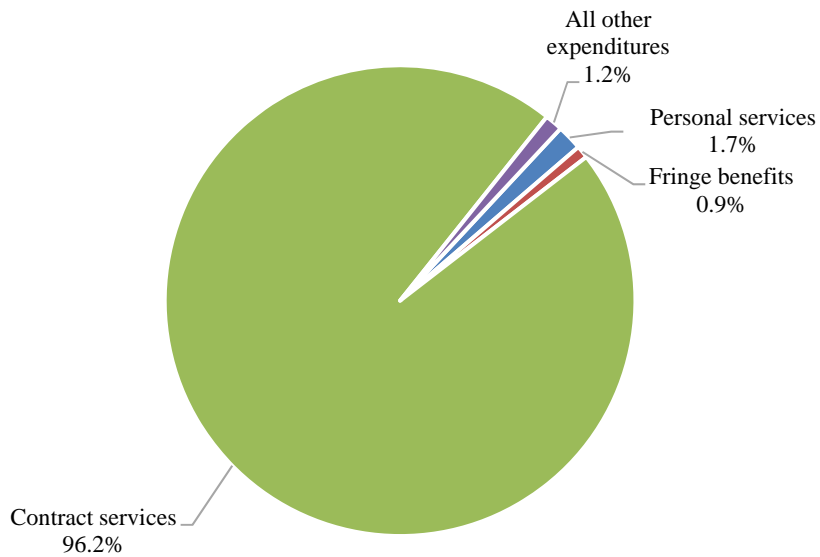
As shown below, residential customers accounted for 70.4% of FairlawnGig's monthly recurring revenues in December 2017, resulting in an average revenue per user of \$68.58:

**Monthly Recurring Revenues by Source
December 2017**



FairlawnGig's resources were primarily used for contract services pertaining to customer installations, the provisioning of services, and maintenance of the system, which accounted for 96.2% of the utility's expenditures in 2017, as illustrated below:

Expenditures by Function 2017



Independent Audit

The City's Basic Financial Statements for the year ended December 31, 2016 were compiled by the Finance Department with technical assistance provided by Julian & Grube, Inc. The State Auditor's Office conducted the annual independent audit of the City's financial statements and issued their report on August 11, 2017. The City received an unmodified (clean) audit opinion, which is a testament to the diligence and professionalism of the staff of the Finance/Tax Department.

Next Year's Outlook

On December 18, 2017, Council passed the 2018 temporary appropriations. Overall, the total 2018 temporary appropriations for all City funds (net of interfund activity) are \$1,307,118 or 6.0% greater than the 2017 permanent appropriations. The table below provides a summary of the City's total appropriations, net of interfund activity, for 2017 compared to 2018:

Total Appropriations (net of interfund activity)	2017		2018		Increase/(Decrease)	
	Permanent	Temporary	Permanent	Temporary	Amount	Percentage
General Fund	\$ 13,713,448	\$ 14,229,177	\$ 13,730,078	\$ 13,616,120	\$ 515,729	3.8%
Income Tax Fund	13,730,078	13,616,120	2,725,469	3,353,656	(113,958)	-0.8%
Capital Improvement Fund	2,725,469	3,353,656	1,409,286	1,636,010	628,187	23.0%
Broadband Fund	1,409,286	1,636,010	5,217,000	5,380,202	226,724	16.1%
All Other Funds	5,217,000	5,380,202			163,202	3.1%
Total All Funds	\$ 21,655,917	\$ 22,963,035			\$ 1,307,118	6.0%

The general fund's appropriations increased by \$515,729 or 3.8%, due to increased personnel costs. Salaries and wages were increased 3.25% for the communication specialists and 2.5% for all other employees. Furthermore, the City's Health Insurance Committee voted to renew the existing medical insurance plan with Medical Mutual for 2018, at an increase of 4.9%, and the existing dental insurance plan with Lincoln Financial for 2018, at an increase of 7.15%.

Although not reflected in the table above, two additional items impacting the general fund's 2018 appropriations include the transfer of \$200,000 to the capital reserve fund to begin the five-year process of replenishing the \$1,000,000 used to purchase the Riviera Townhomes and the transfer of \$600,000 to the broadband fund to subsidize the operating costs of the FairlawnGig utility until it can support itself through user charges.

The appropriations for the income tax fund are \$113,958 or 0.8% less than the 2017 permanent appropriations. Due to timing related changes to our tax code, mandated by HB 5, we anticipated income tax revenues would decrease slightly in 2017. As a result, income tax allocation transfers to the general fund and capital improvement fund must be accordingly decreased in 2018.

Appropriations in the capital improvement fund increased by \$628,187 or 23.0%. The increase resulted from the decisions to forgo the annual asphalt street repair program in 2017 and reinstate it in 2018 with the planned resurfacing of Smith Road.

Finally, the broadband fund's appropriations increased by \$226,724 or 16.1% due to the City operating as the utility's anchor service provider for twelve full months in 2018, as opposed to just nine months in 2017.

As always, the staff of the Finance/Tax Department look forward to the challenges of a new year. Please contact us if you have any questions or need any additional information.

YTD Fund Report for Year 2017 Month 12 - City of Fairlawn

Fund	Description	Beg Yr Bal	YTD Rec	YTD Exp	Unexp	Enc	Unenc
101	GENERAL FUND	8,301,582.90	14,528,419.35	15,010,888.88	7,819,113.37	933,980.30	6,885,133.07
211	STREET CONSTR. & MAINTENANCE	208,940.58	271,804.74	137,475.51	343,269.81	79,669.51	263,600.30
212	PERMISSIVE TAX	14,805.15	96,886.99	78,576.00	33,116.14	0.00	33,116.14
213	STATE HIGHWAY IMPROVEMENT	85,158.32	22,332.39	13,171.95	94,318.76	8,087.20	86,231.56
216	INCOME TAX	6,539,372.37	13,623,831.47	13,736,406.62	6,426,797.22	143,375.92	6,283,421.30
221	ENFORCE & EDUCATION (DUI)	13,115.35	358.00	0.00	13,473.35	0.00	13,473.35
222	SEWER MAINTENANCE & REPAIR	416,269.54	131,969.31	61,607.49	486,631.36	151,229.66	335,401.70
225	STEMCO URBAN REDEV TIF	0.00	0.00	0.00	0.00	0.00	0.00
226	ENERGY SID	0.00	53,340.10	53,340.10	0.00	0.00	0.00
331	CAPITAL IMPROVEMENT	11,764,413.30	3,236,748.14	10,348,246.69	4,652,914.75	3,369,855.68	1,283,059.07
336	CAPITAL RESERVE	2,026,459.63	0.00	1,000,000.00	1,026,459.63	0.00	1,026,459.63
441	BOND RETIREMENT	0.00	0.00	0.00	0.00	0.00	0.00
510	BROADBAND FUND	267,988.67	2,230,927.14	1,724,071.97	774,843.84	661,305.59	113,538.25
780	UNCLAIMED FUND	18,430.70	6.00	16,532.61	1,904.09	0.00	1,904.09
781	ESCROW	0.00	0.00	0.00	0.00	0.00	0.00
782	STREET OPENING DEPOSIT	45,766.00	27,600.00	20,200.00	53,166.00	0.00	53,166.00
783	PERFORM/LANDSC DEPOSIT	17,000.00	31,010.80	17,000.00	31,010.80	0.00	31,010.80
784	POLICE PENSION	131,220.94	357,036.93	319,779.55	168,478.32	35,830.60	132,647.72
785	FIRE PENSION	64,056.63	344,036.93	290,610.79	117,482.77	38,505.74	78,977.03
786	LAW ENFORCEMENT TRUST	1,934.59	569.38	0.00	2,503.97	0.00	2,503.97
787	DRUG LAW ENFORCEMENT	56,286.91	1,220.00	0.00	57,506.91	0.00	57,506.91
788	FURTHERANCE OF JUSTICE	5,000.00	0.00	0.00	5,000.00	0.00	5,000.00
789	FED DRUG LAW ENFORCEMENT	14,027.64	44.14	13,883.00	188.78	0.00	188.78
23 Funds		29,991,829.22	34,958,141.81	42,841,791.16	22,108,179.87	5,421,840.20	16,686,339.67

**City of Fairlawn, Ohio
Income Tax Receipts
December 31, 2017**

Type								
Tax District (% shared)	October	November	December	YTD	Last Year to Date	Increase/(Decrease) Vs. Last YTD		
Business Net Profit	\$ 41,173.06	\$ 48,975.54	\$ 212,561.57	\$ 1,391,967.74	\$ 1,689,779.94	\$ (297,812.20)	-17.6%	
Rosemont (33.3%)	1,910.31	2,936.25	-	57,887.01	26,637.00	31,250.01	117.3%	
Link (40%)	-	-	29.34	129.25	860.76	(731.51)	-85.0%	
Embassy Parkway (50%)	6,311.10	13,201.75	64,918.21	584,324.09	493,963.87	90,360.22	18.3%	
Shared Boundaries (50%)	-	-	-	4,556.00	7,437.00	(2,881.00)	-38.7%	
Subtotal	\$ 49,394.47	\$ 65,113.54	\$ 277,509.12	\$ 2,038,864.09	\$ 2,218,678.57	\$ (179,814.48)	-8.1%	(a)
Individuals								
Resident	46,224.37	24,948.53	115,145.66	777,001.92	941,881.44	(164,879.52)	-17.5%	
Non-resident, conducting business in Fairlawn	56,711.34	14,780.11	57,028.99	426,909.20	502,182.13	(75,272.93)	-15.0%	
Subtotal	\$ 102,935.71	\$ 39,728.64	\$ 172,174.65	\$ 1,203,911.12	\$ 1,444,063.57	\$ (240,152.45)	-16.6%	(a)
Withholding	706,455.27	575,483.12	605,171.90	7,736,810.88	7,481,767.46	255,043.42	3.4%	
Rosemont (33.3%)	33,726.35	28,927.67	39,151.12	428,606.77	414,455.01	14,151.76	3.4%	
Link (40%)	736.66	314.39	336.78	6,902.29	5,073.12	1,829.17	36.1%	
Embassy Parkway (50%)	214,730.07	146,540.83	152,999.73	2,198,695.24	2,070,283.86	128,411.38	6.2%	
Shared Boundaries (50%)	664.65	721.74	525.96	8,189.24	8,143.06	46.18	0.6%	
Subtotal	\$ 956,313.00	\$ 751,987.75	\$ 798,185.49	\$ 10,379,204.42	\$ 9,979,722.51	\$ 399,481.91	4.0%	
Total Receipts	\$ 1,108,643.18	\$ 856,829.93	\$ 1,247,869.26	\$ 13,621,979.63	\$ 13,642,464.65	\$ (20,485.02)	-0.2%	
Less: Shared Tax Due Akron	(123,026.46)	(90,979.22)	(122,418.77)	(1,562,859.49)	(1,439,318.12)	(123,541.38)	8.6%	
Total Net Receipts	\$ 985,616.72	\$ 765,850.71	\$ 1,125,450.49	\$ 12,059,120.14	\$ 12,203,146.53	\$ (144,026.40)	-1.2%	
<i>YTD Increase/(Decrease) Vs. Last YTD</i>	-1.5%	-1.3%	-1.2%					

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(a) Decrease resulted from the enforcement of the estimated tax payment requirements mandated by HB 5 and codified in the new income tax code.